BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

CONFIDENTIAL (FR) October 12, 1973

To: Federal Open Market Committee

From: Murray Altmann

Enclosed is a copy of a report to the Committee from the Subcommittee on Policy Records, dated October 11, 1973. It is contemplated that the subject of how much quantitative information should be contained in the policy record's description of the Committee's policy decision will be discussed at the time of the October meeting of the Committee.

M Altmann

Murray Altmann
Assistant Secretary
Federal Open Market Committee

Enclosure

CONFIDENTIAL (FR) October 11, 1973

To: Federal Open Market Committee

From: Subcommittee on Policy Records
(Messrs. Brimmer, Daane, Mayo, and Morris)

In connection with its review of draft policy records for the FOMC meetings of February and March of this year, the Board of Governors held several discussions of the FOMC Secretariat's recommendation that the passages describing the Committee's policy decision be expanded to include more of the specifications approved by the Committee at each meeting.1/ On June 12, as a result of those discussions, Chairman Burns appointed this Subcommittee to try to develop for consideration by the Board and the Open Market Committee a consensus on the question of how much, if any, quantitative information should be contained in the policy record's description of the Committee's policy decision.

1/ The preliminary draft of the policy record for the meeting of February 13, 1973, which had been sent to members of the Committee on April 12, contained the longer-run target for M_1 and M_2 adopted by the Committee and the Federal funds rate constraint for the period until the next meeting as well as the February-March range of tolerance for RPD's; the Secretariat's reasons for proposing to include the additional specifications were set forth in a covering memorandum.

Prior to appointment of the Subcommittee, Mr. Hackley, then General Counsel of the Committee, had prepared an analysis of the legal aspects of the question.[1/] He noted that specifications had not been recorded as policy actions and appeared to have been treated as understandings with respect to interpretations and implementation of the policy directive, but that one might reasonably argue that the understandings with respect to the specifications can more meaningfully be considered actions of policy than the directive itself. His conclusions, among others, were that "if the specifications are regarded by the Committee as constituting policy actions. . .they should be shown in the policy record for inclusion in the Board's Annual Report to Congress as policy actions with a statement of the underlying reasons for their adoption and the votes of members of the Committee with respect thereto." On the other hand, "if the specifications are not regarded by the Committee as reflecting policy actions and are considered simply as understandings or guidelines with respect to interpretation and implementation of the directive. . .the Board may exercise its own judgment as to whether they should be included in the policy record entry in explanation of the directive."

1/ A copy of Mr. Hackley's memorandum to the Board of Governors, dated May 31, 1973, is appended to this report as Attachment D.

The Subcommittee has not been able to reach a consensus. The members agree that the 2-month range of tolerance for RPD's --the only specification now being published--does not adequately represent the policy conclusion; moreover, it is often very misleading. From that starting point, however, the members move in opposite directions.

On one side, two members of the Subcommittee advocated (Attachment A) that the policy record include the complete set of specifications given to the Manager. In summary, they argued that the specifications--most critically, the funds rate constraint-- are the policy actions of the Committee. Second, it would be in the best interest of the System to err on the side of liberality in the interpretation of the Public Information Act. Third, markets would function better if the participants had a more complete understanding of monetary policy objectives and procedures. Fourth, the Committee would benefit from a more informed analysis and more constructive criticism from the academic community and market participants if they had better and more prompt knowledge of policy objectives and procedures. Fifth, the provision of more information might improve the quality of the criticism rather than increase its volume. Sixth, the Subcommittee was charged with the task of seeking a consensus on the means of describing the Committee's policy decision as it is now formulated and transmitted to the Manager, not the task of appraising the way in which the decision is at present formulated and transmitted. Finally, the failure to include all of the specifications in the policy record hampers the recording of dissents at any time that a member of the Committee dissents from the policy decision because of objections to some but not all of the specifications.

On the other side, a third member of the Subcommittee argued (Attachment B) that the System publish none of the specifications each month but that it rely on a monthly nonquantitative description of the Committee's decision and an annual description of procedure with illustrative quantification. In this view, the specifications are instructions to the Manager in implementing policy; they are proxies for a number of other goals and are not policy actions without the accompanying guidance and instructions given to the Manager in the Committee deliberations. Second, publication of the short-run range of tolerance for RPD's alone is misleading, but publication of the full set of specifications would be even more misleading unless it were accompanied by full disclosure of the relative weights assigned to the specifications and the additional interpretation by the Committee as to how the specifications are to be used. Third, the short-term specifications often are inconsistent with one another, and to publish them, even with a time lag, would expose the Committee to criticism of its procedures. Fourth, without publication of the entire memorandum of discussion, publication of more figures would generate carping criticism of the figures and would distract attention from the broad sweep of monetary policy developments and decision-making. Fifth, rather than contribute to a better functioning of the market, publication of the specifications would increase the number of sophisticates in the market who would attempt to second-guess the System in a way that might thwart or make more difficult the smooth conduct of operations directed toward the Committee's objectives. Finally, a preferable way of making policy more intelligible to the public would be an annual descriptive and interpretive review of procedures and targets with as much illustrative quantification as desired.

The fourth member of the Subcommittee argued (Attachment C) that the policy record--published with the existing 90-day lag--should include the longer-run targets for M_1, M_2, and the bank credit proxy, but for many of the reasons given above, it should not contain any of the short-run operating targets and constraints; a full discussion of the factors determining each monthly decision might best be presented annually. First, the longer-run targets represent the major thrust of the Committee's policy deliberations. Second, public knowledge of them, along with a description of the factors causing the Committee to adopt new targets, should aid understanding of monetary policy and would meet disclosure requirements. Third, public knowledge of the longer-run targets should foster better operation of both financial and nonfinancial markets. Fourth, the short-run operating guidelines and instructions to the Manager are not a complete representation of the Committee's intentions. Fifth, the specifications often are inconsistent, and Committee members typically attach different weights to them. Sixth, an understanding of the short-run targets and constraints would require that purported relationships among them be clearly stated, and their assumed relationship to the longer-run targets would need to be explained at some length if the public were not to be misled and confused--an assignment which would be exceedingly difficult to carry out in view of the differences among Committee members in the emphasis placed on various factors. Finally, it would be desirable to delay a decision on changes in the content of the policy record until the Subcommittee on the Directive has had an opportunity to review recent System experience and to consider the problems that might be associated with fuller disclosure of the short-run specifications; this review should be started as soon as possible.

Appended as Attachment E are four illustrative drafts of the policy action at the July FOMC meeting. Alternative A continues the practice of the recent past and is, in fact excerpted from the policy record entry being released on October 15; Alternative B illustrates the way in which all the specifications might be included; Alternative C illustrates the way in which the decision might be described without citing any of the specifications; and Alternative D illustrates the way in which only the longer-run targets might be included.

ATTACHMENT A

Views of Messrs. Brimmer and Morris

We feel strongly that the Board should publish in the policy record the complete set of specifications given to the Manager by the Federal Open Market Committee. We do so for the following reasons.

1. Now that aggregate targets have been adopted as guides by the FOMC, we believe that markets would function better if the participants had a more complete understanding of monetary policy objectives. With longer-run aggregates targets in view, the market would be less likely to place exaggerated emphasis on short-run fluctuations in interest rates and aggregates. The reduction in uncertainty about the longer-run course of policy could be expected to play a constructive role. For example, in the early months of 1969, it seems likely that the System suffered a lagged response from the economy stemming from a faulty conviction in the market place that the System would not move to a really restrictive monetary policy.

The situation in regard to release of information has been much changed by the move to aggregates targets in early 1970. Under present procedures, the FOMC defines its longer-run policy target in terms of the growth of monetary aggregates while permitting interest rates to move smoothly and continuously in whatever direction is required to keep the aggregates on track.

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Since the relationship between money growth and interest rates holds only in the short-run, is not very close, and is in any case indirect, release of the aggregates targets--with a 90-day time lag--would not provide clear-cut opportunities for private traders to speculate on interest rate movements. Prior to 1970, possibly disruptive speculation perhaps could have arisen from release of information because policy implemention involved, from time to time, instructions to the Manager to firm or to ease money market rates over a period of months. The possibilities for disruptive speculation now seem greater when information is withheld than when it is released.

2. In our judgment, the set of specifications given to the Manager are the policy actions of the Committee. We do not think, for example, that any description of what the Committee decided can omit a reference to the Federal funds constraint. The decision as to how far the Committee will allow interest rates to move in order to meet money supply targets is, in fact, the most critical aspect of the policy decision. To argue that this decision is not a "policy action" is difficult to comprehend.

3. We are concerned about our present posture relative to the legal requirements of the Public Information Act, which established a clear national policy that public agencies make information available to the public unless there were compelling

reasons to rely upon the exemptions from disclosure. The Act reflected a popular view that government should operate in the open as much as possible. In this light, it would be in the best interest of the Federal Reserve to err on the side of liberality in the interpretation of the Public Information Act.

It seems obvious that one of the products of Watergate will be a greatly intensified Congressional concern about secrecy in government. We think that the Federal Reserve should anticipate this trend and not be caught in the position of responding belatedly to it.

4. The Committee can best fulfill its obligations when it can draw on the analysis and constructive criticism of responsible and knowledgeable persons outside the System. A better and more prompt knowledge of the objectives of monetary policy and of the procedures of the Committee would unquestionably generate a better foundation for a constructive input to policymaking from the academic community and market participants.

5. We are not persuaded that the provision of more information would have any effect on the volume of criticism of Federal Reserve policy. However, we think it might improve the quality of the criticism.

Publication of the specifications in full might lead to criticism that the Committee's procedures and targets are not appropriate. At the same time, however, publication might lead to greater public understanding of the difficult trade-offs between growth rates of the aggregates and interest rates and of the problems encountered in attempting to control the growth rates. Publishing the specifications in full would contribute to this better public understanding.

6. We would note that the Subcommittee on the Policy Record was charged with the task of seeking a consensus on the means of describing the Committee's policy decision as it is now formulated and transmitted to the Manager; the Subcommittee was not charged with the task of appraising the way in which the decision is at present formulated and transmitted. Should the Committee change the form in which it specifies the long-run and short-run objectives of policy and, therefore, change the form of its instructions to the Manager, presumably the relevant portion of the policy record would be altered accordingly.

7. Finally, we would point out that the failure to include in the policy record all of the specifications transmitted to the Manager runs into difficulties at any time that a member of the Committee dissents from the policy decision

because of objections to only some of the specifications. How is a dissent to be properly recorded when a member accepts the longer-run targets and the 2-month ranges for the aggregates but believes that the range of tolerance for the funds rate is too high or too low or too narrow?

ATTACHMENT B

Views of Mr. Daane

There are two main reasons advanced for adding all of the quantitative specifications given to the Manager to the regularly published monthly record of policy actions. First, it is argued, such specifications constitute policy actions and as such should be published in accordance both with the Federal Reserve Act and the Public Information Act. Second, it is argued that publication of the complete set of specifications would improve public understanding of System objectives and operations, reduce the potential for misleading interpretation, and result in a better functioning market.

These reasons advanced by two members of the Subcommittee are not convincing. First, the specifications emerge more as instructions and guidance to the Manager in implementing policy rather than policy actions per se. Specifications are changed with accompanying explicit references to an unchanged System policy. Without the accompanying guidance and instructions given the Manager in the Committee deliberations (including the nuances emerging in discussion) as to the use of the specifications, they cannot constitute actions in themselves. How can ranges in a variety of specifications, often internally inconsistent, be construed as a single policy action or actions? It is desirable to have as full a disclosure of FOMC actions as is in the public interest, but the specifications discussed at FOMC meetings are not in themselves policy actions and should not be so construed. The legal basis for this view is contained in Mr. Hackley's memorandum of May 31 (Attachment D to this report).

As to the second major argument, namely that it will reduce the potential for misleading interpretations and consequently contribute to a better functioning market, the reverse possibility is even more likely. There is no question that publication of the two-month range of tolerance for RPDs has <u>not</u> accurately represented the Committee's policy conclusion and is misleading to say the least. But extension of the RPD range to the complete set of specifications could well prove to be even more misleading unless it were accompanied by both the full disclosure of the relative weight assigned by the Committee to certain of the specifications and the additional sense from the Committee of how these specifications are to be used. For example, there are times when the range involved in the funds rate is more fictitious than real in terms of its operational significance. There have been meetings when it is very clear that the upper or lower ends of the funds rate range are not operational in guiding the Manager without additional instruction from the Committee.

Similarly, as the staff cheerfully admits, from time to time there are acknowledged inconsistencies in the various specifications involved in the Committee's deliberations. For example, at a recent meeting (the August FOMC meeting) the staff emphasized that there was an inconsistency among the specifications finally selected for the Manager's guidance. Some members of the Committee made the identical point and it was noted and accepted by the Chairman. To publish, even with a time lag, an admittedly inconsistent set of specifications could only serve to mislead the public and market and to expose the Committee unnecessarily to criticism of its procedures. In fact, as members of the Committee know, the inconsistencies were reconcilable but only within the framework of the full Committee discussion.

Again, all this means is that quantities alone, and the kind of mechanical representation involved in their publication, neither constitute policy actions nor in themselves would successfully be interpretive to the public. To try and interpret them correctly would involve corresponding publication of the entire memorandum of discussion of the Committee. Without such publication, the more figures that are presented the more opportunity there is for carping and detailed criticism of figures which may at times seem superficially inconsistent, and more attention would be given to statistical detail which is easily misinterpreted than to the broad sweep of monetary policy development and decision making. The digits presented in Committee specifications are understood by the Committee and its staff as merely proxies for a number of relative measures of goals, targets or achievements in the monetary policy field. Although constructive criticism might be encouraged by publication of such detail in a few cases, in many if not most cases the specifications would be so confusing as to encourage widespread misinterpretation. And rather than promoting "a constructive input to policymaking from the academic community and market participants" it could well simply encourage the kind of second guessing of policy with benefit of hindsight illustrated by the shadow FOMC of Meltzer and company.

Finally, I disagree completely that publication would contribute to a better functioning market. Rather it would reinforce the market's efforts to look over our shoulder and play "the numbers game." While the market now does try to second-guess the System's operational targets, for example with respect to the funds rate, publication would simply increase the number of sophisticates in the market playing the numbers game with respect to Fed policy. This would not seem to contribute to a better review and appraisal of our policy actions. Despite the time lag (and I believe that some other members of the Subcommittee would prefer to shorten the time lag) the market could take advantage of the specifications or react to the specifications in a way that would not promote the best interests of the System in achieving our objectives. If deviations develop, for example, from what the market construed to be current specifications, based on what they knew from the published record, their anticipation of System action could either thwart our objectives, or carry our policy beyond what is intended in terms of money and credit conditions, or, at the least, make it more difficult to operate smoothly and consistently in the market.

The above views would favor the illustrative Alternative C of the description of the policy action for inclusion in the policy record for the Federal Open Market Committee meeting of June 18-19, 1973 (attached). Alternative A is the least desirable since it leaves the

RPD numbers (as the symbol of monetary policy) in an over-simplified and seriously exposed position. Alternative B is undesirable for the reasons given above. However, accepting the objective of improved public understanding of System objectives and operations, an alternative procedure to the publication of the complete set of specifications in the monthly record should be considered. This would involve an annual descriptive review of procedures and targets with as much illustrative quantification as desired. In turn this would give the public a better insight into our procedures and the way in which we do take into account the various aggregates and interest rates without the possible or probable disadvantages in the procedures suggested by those advocating publication in full of the specifications. Based on experiment with this annual review there could be subsequent reconsideration of whether a more meaningful and descriptive narrative of policy could be constructed on a monthly basis.

ATTACHMENT C

Views of Mr. Mayo

I have considered carefully the arguments in favor of publishing the complete specifications of the Committee's directive to the Manager, but I am not prepared to support the publication of the complete set of specifications on a monthly basis. I am in complete agreement that present procedure of publishing the two-month range of tolerance for RPD's has not accurately represented the Committee's policy conclusions and is both misleading and confusing. But, I do not believe publication of the complete set of specifications would meet the desirable goal of improving public understanding of and access to System objectives and operations.

Rather, I would propose that the System publish in the policy record only the longer term targets for M_1, M_2 and the bank credit proxy on a monthly basis (with the usual lag). These targets, in my view, represent reasonably well the major thrust of the policy deliberations of the Committee. Knowledge of the targets, along with descriptions of the fundamental factors that cause the Committee to adopt new targets over time should aid public understanding of monetary policy as well as meeting System public disclosure requirements, appropriately defined. Knowledge of longer-run targets should foster better operation of both financial and nonfinancial markets, especially by reducing both uncertainty and exaggerated emphasis on the behavior of interest rates and individual aggregates over short periods of time.

I view the short-run operating constraints, however, both with respect to interest rates and monetary aggregates, as operating guidelines and instructions furnished as a summary outline for the Manager of the Desk. As listed in specifications furnished to the Manager at the end of each meeting, these constraints are not complete in any sense of the word. Nor, in my view, do they represent more than a portion of the intentions of the Committee.

It is apparent in almost every meeting that some of the factors not included in the specifications have not been defined clearly by members of the Committee. There typically are differences among Committee members concerning the significance that should be attached to each of the components of the full specifications. There is, for example, the problem of preparing a consistent set of aggregate and rate constraints faced by the professional staff for Committee consideration. Given past inaccuracies in the materials furnished by the staff, understandable though they are, interpretation of the significance

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of any given choice requires some judgment of the weights attached by the Committee to each of the short-run operating constraints. More fundamentally, the purported relationships among the various constraints would have to be specified clearly. Finally, for the specifications to be useful, it would be necessary to explain at some length the assumed relationship between the short-run constraints and the longer-term targets for M_1, M_2 and the bank credit proxy.

Without such a complete set of specifications, a very real risk of misleading and confusing the public would exist, in my view. Attempts to avoid this result in the current operating environment would impose a large and continuing burden--especially attempts to explain a choice of often inconsistent constraint numbers.

I am in sympathy with a desire to disclose this information in some appropriate manner but I don't think the Committee is ready yet to decide how. A detailed, frank discussion of the factors determining each monthly decision might best be presented annually. But whatever the ultimate decision might be, I feel strongly that sufficient uncertainties surround the monthly specifications internally to make it unwise to attempt to publish them on a lagged monthly basis.

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The Subcommittee on the Directive will reconvene shortly. It would appear to me that the appropriate forum for consideration of the problems that would be associated with disclosure of the full short-run operating specifications is that Subcommittee. The System has wrestled with most of the questions that are raised by the proposal to disclose the specifications for only a limited period. But before making a decision concerning what disclosures would be in the best public interest, I recommend that the System first review its own experience in recent years. And I recommend that the Subcommittee on the Directive undertake this review as soon as possible.

ATTACHMENT D

CONFIDENTIAL (F.R.)

May 31, 1973

To: Board of Governors

From: Mr. Hackley*

Subject: Legal aspects of publication of quantitative specifications relating to the domestic open market policy directive.

In connection with recent discussions regarding the open market policy records for the February and March 1973 meetings of the Open Market Committee, question has been raised as to the desirability of including the range specified for the Federal funds rate and the six-month targets for M_1 and M_2. During such discussions it has also been suggested that the entire quantitative specification sheet for each meeting of the Committee be published after a six-month lag or included in an annual review of open market operations.

In considering these questions from a legal viewpoint, two distinctions should be borne in mind: first, the distinction between the requirements of section 10 of the Federal Reserve Act with respect to the keeping of a record of policy actions of the Committee and the requirements of the Public Information Act with respect to disclosure of information by each agency of the Government; and, second, the distinction between the statutory responsibilities of the Board and those of the Open Market Committee.

The tenth paragraph of section 10 of the Federal Reserve Act provides that the Board "shall keep a complete record of the action taken . . . by the Federal Open Market Committee upon all questions of policy relating to open-market operations and shall record therein the

* Mr. O'Connell advises that he concurs in the positions taken in this memorandum.

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votes taken in connection with the determination of open-market policies and the reasons underlying the action of . . . the Committee in each instance." The paragraph further requires the Board to include in its Annual Report to Congress a full account of the actions so taken during the preceding year with respect to open market policies and to include in such Report a copy of the records required to be kept pursuant to this paragraph.

From these provisions it is clear that the responsibility for keeping records of open market policy actions by the Committee rests with the Board and that the record entry for each meeting of the Committee is to be approved by the Board rather than by the Committee. This question was specifically considered at a meeting of the Board on June 13, 1967, shortly before the Public Information Act became effective. At that meeting there was a suggestion that open market policy record entries be put on the agenda of meetings of the Open Market Committee for approval by that Committee before the entries were submitted to the Board for its approval. It was agreed, however, that such a procedure might be inconsistent with the requirements of section 10 of the Federal Reserve Act and that the procedure theretofore followed should be continued, namely, preparation of a draft of the record by the Board's staff, submission of the draft to Board members and Reserve Bank presidents for comments, and subsequent approval of the record by the Board.

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At the same time, it should be noted that the Board's responsibility under section 10 of the Federal Reserve Act is to keep a record of policy actions taken by the Federal Open Market Committee. Obviously, it would be inappropriate for the policy record approved by the Board to omit any action that was clearly intended by the Committee to constitute an action with respect to open market policy.

Heretofore, specifications agreed to at each meeting of the Committee with respect to the range of Federal funds rates and long-range M_1 and M_2 targets have not been recorded as "policy actions" of the Committee; in fact, they have not been included as actions of any kind in the "minutes of actions" for meetings of the Committee. Rather, it appears that they have been treated as "understandings", not based on a formal vote, with respect to interpretation and implementation of the policy directive. This is in contrast to the practice under which the domestic policy directive has been adopted by formal vote and included in the "minutes of actions" of each meeting.*

One might reasonably argue that the understanding as to the range of Federal funds rates reached at each meeting of the Committee and the understanding with respect to M_1 and M_2 targets can more meaningfully be considered actions of policy than the directive itself.

* It might be noted that if the Committee should be recorded as formally voting to approve the specifications - whether or not it treated them as part of the policy action - it would be necessary to report that vote in the minutes of actions which, under the Committee's Rules, are available for public inspection 90 days after the meeting to which they relate.

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If the Committee should decide at some point that such quantitative specifications are part of its policy action, it would be inappropriate, in my opinion, for the Board to omit such specifications from the policy record prepared pursuant to section 10 of the Federal Reserve Act. In the absence of any such action by the Committee, however, it would appear that the question of including such specifications in the policy entry for a particular meeting would be a decision for the Board alone.

In connection with the question whether the specifications should be regarded as "policy actions", it may be noted that, when the members of the Committee on two recent occasions agreed between meetings to a modification of the range of Federal funds rates, that agreement was not ratified at the following meeting of the Committee, thus indicating that such agreement was not considered a policy action. On the other hand, the very fact that it was considered desirable to obtain such agreements between meetings suggests that the range of Federal funds rates was regarded as coming very close to constituting a policy action.

As far as section 10 of the Federal Reserve Act is concerned, policy actions of the FOMC are required to be published only on an annual basis in the Board's Annual Report to Congress. Stricter requirements as to time of publication are imposed by section 552 of Title 5 of the U. S. Code, a section commonly referred to as the "Public Information Act". That section provides that each governmental agency shall "currently publish in the Federal Register for the guidance

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of the public" certain types of information, including "statements of general policy", unless they fall within specifically enumerated exceptions. The only exception that might be applicable to actions of the Committee is that pertaining to "inter-agency or intra-agency memorandums". In a sense, the policy directive adopted by the Committee at each meeting is a communication addressed to the Federal Reserve Bank of New York and might therefore be regarded as an "inter-agency memorandum"; but after the enactment of the Public Information Act the Committee agreed that the directive should properly be regarded as a statement of general policy falling within the publication requirement of that Act.

It was also agreed in 1967, however, that publication of the directive after a 90-day lag would constitute reasonable compliance with the requirement that statements of general policy be "currently" published. The Committee's Rules Regarding Availability of Information expressly provide that certain types of information of the Committee are not published in the Federal Register until after such period of time as the Committee may determine to be reasonably necessary to avoid certain undesirable effects described in the Rules and that, for this reason, the Committee's current economic policy directive is published in the Federal Register approximately 90 days after the date of its adoption. One of the reasons for such deferment of publication enumerated in the Rules is that earlier disclosure would "permit speculators and others to gain unfair profits or to obtain

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unfair advantages by speculative trading in securities, foreign exchange, or otherwise".

The Committee's Rules also provide that no information in the records of the Committee relating to the adoption of any economic policy directive is made available to the public before it is published in the Federal Register or is otherwise released to the public by the Committee. Consequently, under the Rules, information regarding quantitative targets agreed to in connection with the adoption of the directive at a particular meeting may not be made public until after expiration of the 90-day period unless otherwise released to the public by the Committee.

In the light of the provisions of the Public Information Act and the Committee's Rules regarding disclosure of information, quantitative specifications agreed to by the Committee in connection with adoption of the economic policy directive must be published after a lag of 90 days <u>if</u> such specifications constitute "policy actions", notwithstanding the less stringent requirements of section 10 of the Federal Reserve Act as to the time of publication of the record of policy actions. On the other hand, if the specifications do not constitute policy actions, they may not be published prior to the expiration of approximately 90 days after the meeting at which they were agreed to and, if the Board does not include them in the policy record entry for that meeting, the timing of their subsequent publication, whether after a lag of six months or on an annual basis, is a matter for determination by the Committee and not by the Board.

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To summarize:

(1) If the specifications are not regarded by <u>the Committee</u> as reflecting policy actions and are considered simply as understandings or guidelines with respect to interpretation and implementation of the directive,

(a) the Board may exercise its own judgment as to whether they should be included in the policy record entry in explanation of the directive; but

(b) if they are not included in the policy record entry, their subsequent publication and the timing of such publication are matters for determination by the Committee.

(2) If the specifications are regarded by <u>the Committee</u> as constituting policy actions,

(a) they should be included in the minutes of actions for the meeting at which the directive to which they relate is adopted and shown in the memorandum of discussion for that meeting as having been formally adopted by the Committee;

(b) they should be shown in the policy record for inclusion in the Board's Annual Report to Congress as policy actions with a statement of the underlying reasons for their adoption and the votes of members of the Committee with respect thereto; and

(c) they should be published along with the directive itself in the Federal Register approximately 90 days after the date of the meeting at which they were adopted.

ATTACHMENT E

Alternative A
(excerpted from July policy record)

The Committee agreed that the economic situation and prospects called for slower growth in monetary aggregates over the months immediately ahead than had occurred on average in the first half of the year. A staff analysis suggested that expansion in the demand for money was likely to slow considerably from the high rate recorded in the second quarter--in response to the anticipated moderation in GNP growth and to the sharp rise in short-term interest rates that had occurred in recent months. Because of the rise in short-term market rates, moreover, net expansion in consumer-type time and savings deposits at commercial banks was expected to slow appreciably despite the increase in rate ceilings announced in early July. As a consequence, it was anticipated that banks would attempt to expand the outstanding volume of large-denomination CD's; the increase in these issues in the July-August period was expected to remain relatively large.

The staff analysis suggested that a relatively rapid rate of growth in RPD's in the July-August period--at an annual rate in a range of 11-1/2 to 13-1/2 per cent--would be consistent with slower growth in the monetary aggregates over the months immediately ahead than had occurred in the first half of the year. The analysis also suggested that such a rate of growth in RPD's might be associated with little change in money market conditions but that short- and long-term market interest rates in general

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might be subject to additional upward pressures in further adjustment to the firming in money market conditions that had occurred in recent weeks.

The Committee decided that operations should be directed at fostering RPD growth during the July-August period at an annual rate within a range of 11-1/2 to 13-1/2 per cent, while avoiding unduly sharp changes in money market conditions. The members also agreed that, in the conduct of operations, account should be taken of international and domestic financial market developments, of the forthcoming Treasury financing, and of deviations in monetary growth from an acceptable range. It was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives and constraints.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting, including recent developments in industrial production, employment, and retail sales, suggests that growth in economic activity moderated in the second quarter from the exceptionally rapid pace of the two preceding quarters. Increases in employment were relatively substantial, however, and in June the unemployment rate dropped below 5 per cent. Wage rates advanced at a faster pace during the second quarter than earlier in the year. In the months immediately preceding the price freeze imposed in mid-June, the rise in prices of both industrial commodities and farm and food products remained extraordinarily rapid.

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The U.S. merchandise trade balance worsened in May as import prices rose sharply further, but the trade deficit remained well below the first-quarter average. In foreign exchange markets, the jointly floating continental European currencies rose sharply further against the dollar in early July. After the first week in July, the dollar recovered somewhat on the basis of market expectations of official intervention. On July 10 the Federal Reserve announced substantial increases in its swap arrangements with other central banks.

Both the narrowly and more broadly defined money stock rose sharply in May and June, although inflows of consumer-type time and savings deposits slackened somewhat in the latter month. Expansion in bank credit continued at a substantial pace. Since mid-June both short- and long-term market interest rates have advanced considerably further, with the sharpest increases in the short-term sector. On June 29 increases were announced in Federal Reserve discount rates, from 6-1/2 to 7 per cent, and in member bank reserve requirements; on July 5 ceiling interest rates were increased on time and savings deposits at commercial banks and other thrift institutions.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to abatement of inflationary pressures, a more sustainable rate of advance in economic activity, and progress toward equilibrium in the country's balance of payments.

To implement this policy, while taking account of international and domestic financial market developments and the forthcoming Treasury financing, the Committee seeks to achieve bank reserve and money market conditions consistent with slower growth in monetary aggregates over the months immediately ahead than occurred on average in the first half of the year.

Votes for this action: Messrs. Burns, Hayes, Balles, Brimmer, Bucher, Daane, Holland, Mayo, Morris, and Sheehan. Vote against this action: Mr. Francis.

Absent and not voting: Mr. Mitchell.

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Mr. Francis dissented from this action not because he disagreed with the objectives of the policy adopted by the Committee but because he believed that--as had proved to be the case following other recent meetings--the objectives would not be achieved because of the constraint on money market conditions.

Subsequent to the meeting it appeared that in the July-August period the annual rate of growth in RPD's and in the monetary aggregates might exceed acceptable ranges, even though money market conditions had continued to tighten. On August 3, 1973, the available members--with the exception of Messrs. Bucher and Sheehan--concurred in a recommendation by the Chairman that money market conditions should be permitted to tighten still further if necessary to limit growth in RPD's.

Alternative B
(all specifications)

The Committee agreed that the economic situation and prospects called for slower growth in monetary aggregates over the months immediately ahead than had occurred on average in the first half of the year. Specifically, the members decided that the System should endeavor to foster growth in M_1, M_2, and the bank credit proxy over the second half of the year at average annual rates of 3-3/4, 4-3/4, and 7-1/2 per cent, respectively, following growth at rates of 6, 7-3/4, and 13-3/4 per cent, respectively, in the first half of the year. It was understood that growth rates in individual weeks and months might deviate significantly from the longer-run targets and that such targets would be reviewed and would be subject to revision at each subsequent meeting of the Committee.

A staff analysis suggested that expansion in the demand for money was likely to slow considerably from the high rate recorded in the second quarter--in response to the anticipated moderation in GNP growth and to the sharp rise in short-term interest rates that had occurred in recent months. Moreover, net expansion in consumer-type time and savings deposits at commercial banks was expected to slow appreciably because of

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the higher levels of short-term market interest rates. According to the analysis, growth in M_1 and M_2 over the July-August period at average annual rates in ranges of 3-3/4 to 5-3/4 per cent and 4-1/2 to 6-1/2 per cent, respectively, would be consistent with the Committee's longer-run targets.

The staff analysis also indicated that banks were likely to continue adding substantial amounts to the outstanding volume of large-denomination CD's. Therefore, a relatively rapid rate of growth in RPD's in the July-August period--at an annual rate in a range of 11-1/2 to 13-1/2 per cent--was projected to be consistent with slower growth in the monetary aggregates over the months immediately ahead than had occurred on average in the first half of the year. Such a rate of growth in RPD's might be associated with little change in money market conditions but short- and long-term market interest rates in general might be subject to additional upward pressures in further adjustment to the firming in money market conditions that had occurred in recent weeks.

The Committee decided that operations should be directed at fostering RPD growth during the July-August period at an annual rate within a range of 11-1/2 to 13-1/2 per cent. The members agreed that marked changes in money market conditions should be avoided, but that the weekly average Federal funds rate

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until the next meeting might be permitted to vary in an orderly fashion from as low as 9 per cent to as high as 10-1/2 per cent if necessary in the conduct of operations directed toward achieving the desired rate of growth in RPD's.

The members also agreed that, in the conduct of operations, account should be taken of international and domestic financial market developments, of the forthcoming Treasury financing, and of apparent deviations in monetary growth for the July-August period from the ranges considered to be consistent with the Committee's longer-run targets. It was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives and constraints.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting, including recent developments in industrial production, employment, and retail sales, suggests that growth in economic activity moderated in the second quarter from the exceptionally rapid pace of the two preceding quarters. Increases in employment were relatively substantial, however, and in June the unemployment rate dropped below 5 per cent. Wage rates advanced at a faster pace during the second quarter than earlier in the year. In the months immediately preceding the price freeze imposed in mid-June, the rise in prices of both industrial commodities and farm and food products remained extraordinarily rapid.

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The U.S. merchandise trade balance worsened in May as import prices rose sharply further, but the trade deficit remained well below the first-quarter average. In foreign exchange markets, the jointly floating continental European currencies rose sharply further against the dollar in early July. After the first week in July, the dollar recovered somewhat on the basis of market expectations of official intervention. On July 10 the Federal Reserve announced substantial increases in its swap arrangements with other central banks.

Both the narrowly and more broadly defined money stock rose sharply in May and June, although inflows of consumer-type time and savings deposits slackened somewhat in the latter month. Expansion in bank credit continued at a substantial pace. Since mid-June both short- and long-term market interest rates have advanced considerably further, with the sharpest increases in the short-term sector. On June 29 increases were announced in Federal Reserve discount rates, from 6-1/2 to 7 per cent, and in member bank reserve requirements; on July 5 ceiling interest rates were increased on time and savings deposits at commercial banks and other thrift institutions.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to abatement of inflationary pressures, a more sustainable rate of advance in economic activity, and progress toward equilibrium in the country's balance of payments.

To implement this policy, while taking account of international and domestic financial market developments and the forthcoming Treasury financing, the Committee seeks to achieve bank reserve and money market conditions consistent with slower growth in monetary aggregates over the months immediately ahead than occurred on average in the first half of the year.

Votes for this action: Messrs. Burns, Hayes, Balles, Brimmer, Bucher, Daane, Holland, Mayo, Morris, and Sheehan. Vote against this action: Mr. Francis.

Absent and not voting: Mr. Mitchell.

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Mr. Francis dissented from this action not because he disagreed with the longer-run targets for the aggregates adopted by the Committee but because he believed that--as had proved to be the case following other recent meetings--they would not be achieved because of the constraint on the Federal funds rate.

Subsequent to the meeting it appeared that in the July-August period the annual rate of growth in RPD's might be above the specified range and that rates of growth in the monetary aggregates might exceed acceptable ranges, even though in the two latest statement weeks the average Federal funds rate had been slightly above the 10-1/2 per cent upper limit of the constraint established at the July meeting. On August 3, 1973, a majority of the members concurred in a recommendation by the Chairman that the weekly average funds rate should be permitted to move as high as 11 per cent if necessary to limit growth in RPD's.

Votes for this action: Messrs. Burns, Balles, Brimmer, Daane, Francis, Mayo, Mitchell, Debs, and Eastburn. Votes against this action: Messrs. Bucher and Sheehan.

Absent and not voting: Messrs. Hayes, Holland, and Morris. (Messrs. Debs and Eastburn voted as alternates for Messrs. Hayes and Morris, respectively.)

Alternative C
(no specifications)

Staff analysis suggested that expansion in the demand for money was likely to slow considerably from the high rate recorded in the second quarter--in response to the anticipated moderation in GNP growth and to the sharp rise in short-term interest rates that had occurred in recent months. Moreover, net expansion in consumer-type time and savings deposits at commercial banks was expected to slow appreciably because of the higher levels of short-term market interest rates. As a consequence, it was anticipated that banks would attempt to expand the outstanding volume of large-denomination CD's; the increase in these issues in the July-August period was expected to remain relatively large.

The Committee agreed that the economic situation and prospects called for slower growth in monetary aggregates over the months immediately ahead than had occurred on average in the first half of the year. It was understood that such a slowing in monetary growth might be associated with little change in money market conditions but that short- and long-term market interest rates in general might be subject to additional upward pressures in further adjustment to the firming in money market conditions that had occurred in recent weeks.

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The members also agreed that marked changes in money market conditions should be avoided and that, in the conduct of operations, account should be taken of international and domestic financial market developments, of the forthcoming Treasury financing, and of deviations in monetary growth from an acceptable range. It was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives and constraints.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting, including recent developments in industrial production, employment, and retail sales, suggests that growth in economic activity moderated in the second quarter from the exceptionally rapid pace of the two preceding quarters. Increases in employment were relatively substantial, however, and in June the unemployment rate dropped below 5 per cent. Wage rates advanced at a faster pace during the second quarter than earlier in the year. In the months immediately preceding the price freeze imposed in mid-June, the rise in prices of both industrial commodities and farm and food products remained extraordinarily rapid.
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> The U.S. merchandise trade balance worsened in May as import prices rose sharply further, but the trade deficit remained well below the first-quarter average. In foreign exchange markets, the jointly floating continental European currencies rose sharply further against the dollar in early July. After the first week in July, the dollar recovered somewhat on the basis of market expectations of official intervention. On July 10 the Federal Reserve announced substantial increases in its swap arrangements with other central banks.

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Both the narrowly and more broadly defined money stock rose sharply in May and June, although inflows of consumer-type time and savings deposits slackened somewhat in the latter month. Expansion in bank credit continued at a substantial pace. Since mid-June both short- and long-term market interest rates have advanced considerably further, with the sharpest increases in the short-term sector. On June 29 increases were announced in Federal Reserve discount rates, from 6-1/2 to 7 per cent, and in member bank reserve requirements; on July 5 ceiling interest rates were increased on time and savings deposits at commercial banks and other thrift institutions.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to abatement of inflationary pressures, a more sustainable rate of advance in economic activity, and progress toward equilibrium in the country's balance of payments.

To implement this policy, while taking account of international and domestic financial market developments and the forthcoming Treasury financing, the Committee seeks to achieve bank reserve and money market conditions consistent with slower growth in monetary aggregates over the months immediately ahead than occurred on average in the first half of the year.

Votes for this action: Messrs. Burns, Hayes, Balles, Brimmer, Bucher, Daane, Holland, Mayo, Morris, and Sheehan. Vote against this action: Mr. Francis.

Absent and not voting: Mr. Mitchell.

Mr. Francis dissented from this action not because he disagreed with the objectives of the policy adopted by the Committee but because he believed that--as had proved to be the case following other recent meetings--the objectives would not be achieved because of the constraint on money market conditions.

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Subsequent to the meeting it appeared that in the July-August period growth in the monetary aggregates might exceed acceptable ranges, even though money market conditions had continued to tighten. On August 3, 1973, the available members--with the exception of Messrs. Bucher and Sheehan--concurred in a recommendation by the Chairman that money market conditions should be permitted to tighten still further if necessary to limit growth in the aggregates.

Alternative D
(longer-run targets)

Staff analysis suggested that expansion in the demand for money was likely to slow considerably from the high rate recorded in the second quarter--in response to the anticipated moderation in GNP growth and to the sharp rise in short-term interest rates that had occurred in recent months. Moreover, net expansion in consumer-type time and savings deposits at commercial banks was expected to slow appreciably because of the higher levels of short-term market interest rates. As a consequence, it was anticipated that banks would attempt to expand the outstanding volume of large-denomination CD's; the increase in these issues in the July-August period was expected to remain relatively large.

The Committee agreed that the economic situation and prospects called for slower growth in monetary aggregates over the months immediately ahead than had occurred on average in the first half of the year. Specifically, the members decided that the System should endeavor to foster growth in M_1, M_2, and the bank credit proxy over the second half of the year at average annual rates of 3-3/4, 4-3/4, and 7-1/2 per cent, respectively, following growth at rates of 6, 7-3/4, and 13-3/4 per cent, respectively, in the first half of the year. It was understood that growth rates in individual weeks and months might deviate significantly from the longer-run targets and that such targets would be reviewed and would be subject to revision at each subsequent meeting of the Committee.

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The members also agreed that marked changes in money market conditions should be avoided and that, in the conduct of operations, account should be taken of international and domestic financial market developments, of the forthcoming Treasury financing, and of deviations in monetary growth from an acceptable range. It was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives and constraints.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting, including recent developments in industrial production, employment, and retail sales, suggests that growth in economic activity moderated in the second quarter from the exceptionally rapid pace of the two preceding quarters. Increases in employment were relatively substantial, however, and in June the unemployment rate dropped below 5 per cent. Wage rates advanced at a faster pace during the second quarter than earlier in the year. In the months immediately preceding the price freeze imposed in mid-June, the rise in prices of both industrial commodities and farm and food products remained extraordinarily rapid.
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> The U.S. merchandise trade balance worsened in May as import prices rose sharply further, but the trade deficit remained well below the first-quarter average. In foreign exchange markets, the jointly floating continental European currencies rose sharply further against the dollar in early July. After the first week in July, the dollar recovered somewhat on the basis of market expectations of official intervention. On July 10 the Federal Reserve announced substantial increases in its swap arrangements with other central banks.

Both the narrowly and more broadly defined money stock rose sharply in May and June, although inflows of consumer-type time and savings deposits slackened somewhat in the latter month. Expansion in bank credit continued at a substantial pace. Since mid-June both short- and long-term market interest rates have advanced considerably further, with the sharpest increases in the short-term sector. On June 29 increases were announced in Federal Reserve discount rates, from 6-1/2 to 7 per cent, and in member bank reserve requirements; on July 5 ceiling interest rates were increased on time and savings deposits at commercial banks and other thrift institutions.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to abatement of inflationary pressures, a more sustainable rate of advance in economic activity, and progress toward equilibrium in the country's balance of payments.

To implement this policy, while taking account of international and domestic financial market developments and the forthcoming Treasury financing, the Committee seeks to achieve bank reserve and money market conditions consistent with slower growth in monetary aggregates over the months immediately ahead than occurred on average in the first half of the year.

Votes for this action: Messrs. Burns, Hayes, Balles, Brimmer, Bucher, Daane, Holland, Mayo, Morris, and Sheehan. Vote against this action: Mr. Francis.

Absent and not voting: Mr. Mitchell.

Mr. Francis dissented from this action not because he disagreed with the objectives of the policy adopted by the Committee but because he believed that--as had proved to be the case following other recent meetings--the objectives would not be achieved because of the constraint on money market conditions.

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Subsequent to the meeting it appeared that in the July-August period growth in the monetary aggregates might exceed acceptable ranges, even though money market conditions had continued to tighten. On August 3, 1973, the available members--with the exception of Messrs. Bucher and Sheehan--concurred in a recommendation by the Chairman that money market conditions should be permitted to tighten still further if necessary to limit growth in the aggregates.